State Employee Benefits Committee
Monday, November 28, 2011, 2:00 p.m.
Tatnall Building, Room 112
Dover, Delaware

The State Employee Benefits Committee met on November 28, 2011 at the Tatnall Building, Room 112, Dover, Delaware. The following Committee members and guests were present:

Ann Visalli, Director, OMB
Brenda Lakeman, Director, OMB, SBO
Faith Rentz, Deputy Director, OMB, SBO
Vicki Ford, OMB
Ann Skeans, SBO
Mary Thuresson, OMB, SBO
Mike Morfe, AON Hewitt
Andrew Kerber, DOJ
Russ Larson, Controller General
Carolyn Berger, Justice, DOJ
Valerie Watson, Department of Finance
Chip Flowers, State Treasurer
Erika Benner, Treasurer's Office
Erin Guerke, Treasurer's Office
Julian Woodall, DHSS, DPH
Karen Weldin Stewart, Insurance Commissioner
David Craik, Pension Office
Mary Cooke, SEBAC, DOE
Yvonne Marshall, PHRST
Monica Gonzales Gillespie, OMB, HRM
Andrea Godfrey, OMB, BDPA
Tim Barchak, DSEA
Chris Ulrich, U of D
Vonda Benson, Blue Cross Blue Shield DE
Faith Joslyn, Blue Cross Blue Shield DE
Joe Morocco, HMS
Katherine Impellizzeri, Aetna
Julie Caynor, Aetna
Mike North, Aetna
Gina Chmielewski, Coventry
Cynthia Angermerer, DSEA – R
Vincent McCann, AFSCME
James Testerman, DSEA - R
Sandy Richards, AFSCME
Rich Phillips, DSEA - R
Dave Leiter, DHSS

Agenda Items Discussed:

Introductions/Sign In

Ms. Visalli called the meeting to order at 2:00 p.m. A reminder was given for anyone who wanted to sign up for Public Comment. Introductions around the room followed.

Approval of Minutes

Members in attendance were asked to review the prior meeting minutes, Ms. Visalli requested a motion to approve the minutes from the October 24, 2011, SEBC meeting. Controller General Larson made the motion and Justice Berger seconded the motion. Upon unanimous voice vote the minutes were approved.

Directors Report – Brenda Lakeman

$7.7 million (M) was received for the Early Retiree Reimbursement Program (ERRP). Due to its arrival in early November, it was not reflected in the October Fund Equity Report. Another reimbursement request is expected to be submitted in December. Additional updates on ERRP reimbursements will be provided at the next meeting.

Health Fund Financials

October 2011 Fund Equity Report– Vicki Ford (handout)

The ending fund balance was $32.5M, which is $6.7M less than September. This is attributable to three Medco claim payments during the month. Ms. Lakeman reiterated that the ERRP reimbursement will appear on the November reporting and reminded the committee that the ERRP funds are listed as an assignment and do not increase the fund surplus. Justice Berger wanted to confirm that the decrease in the fund balance in October did not reflect a surge in claims, but reflects the fact there were additional claim payments. Ms. Lakeman confirmed and added that the periodic reimbursements for Medco rebates or Medicare Part D payments offset those months when additional claim payments are made.

Commissioner Stewart explained that when the SEBC began using the risk based capital (RBC) methodology, they talked about doing incremental increases in the minimum reserve. She noted the ability to keep the overall percentage at a higher level and she asked if there is a way to increase the current 200 percent minimum. Ms. Visalli stated the fund was currently at 350 percent. Discussion followed. Ms. Visalli stated the 200 percent minimum was based on analysis of industry standards which provides a relative benchmark. If the 200 percent minimum is arbitrarily changed, they will not have the same relative snapshot of the status of the health fund. Ms. Visalli explained that another evaluation of the minimum reserve would be considered and cautioned on the risk of adjusting the formula without carefully considering the industry standards. Justice Berger also commented that the 200 percent minimum has meaning; however, doesn't necessarily change the Committee's goal to carry a surplus above that threshold and that a change in the minimum level could create unnecessary confusion. This will be discussed further at an upcoming meeting.

Consultant Request for Proposal Contract Award Recommendation – Faith Rentz (handout)

The background and steps leading up to the Consultant RFP were given. The Proposal Review Committee presented the following:

<u>Recommendation</u>

RESOLVED that with respect to the award of a contract pursuant to the Request for Proposal (RFP) for Consulting Services for the State of Delaware Group Health Insurance Program, the Proposal Review Committee (PRC) recommends to the State Employee Benefits Committee as follows:

Contract award for Consulting Services to Segal for an initial term of three years with two one year renewal options beginning January 1, 2012. Such award shall be subject to a finalized contract which shall include Performance Guarantees.

The current contract with Aon Hewitt will be renegotiated and extended through June 30, 2012 or until such time as the work associated with the Early Retiree Reinsurance Program is complete, using the year five fees outlined in their 2007 RFP bid response and best and final pricing. The extension with Aon Hewitt will allow Aon Hewitt to complete several open projects and allow time for Segal to become familiar with the programs and services administered through the Group Health Insurance Program and to be prepared to assume ongoing responsibilities previously conducted by Aon Hewitt no later than July 1, 2012.

Ms. Rentz and Ms. Visalli both thanked Mike Morfe and his team for the tremendous job they did and for their professionalism. Questions and answers followed.

Justice Berger asked for clarification on the contract extension with Aon Hewitt. Ms. Lakeman stated the June 30, 2012 date would apply for most of the open projects except ERRP. Due to the complex nature of aggregating the medical and prescription data as required for the cost reporting, it made sense to allow Aon Hewitt to complete this project which will continue until such time as the $5 billion (B) in funding is expended. If additional funding is made available by the federal government for this initiative and the work associated with this project is extended further, an update will be provided to the Committee and discussion as to which consultant should continue the work.

Treasurer Flowers asked if the company being awarded the contract is Segal Advisors as the Treasurer's Office has recently engaged Segal Advisors and would like to know if it is the same company. Ms. Rentz believed it was a subsidiary of the same organization. No specific questions were asked of them in relation to Group Health Program's Request for Proposal (RFP) and the Treasurer's Office contract. The Treasurer suggested the possibility of leverage for cost savings and asked if the contract with the Group Health Insurance Program would contain an out clause. Ms. Rentz confirmed that all contracts contain standard provisions to allow a termination for non performance and noted a past experience where the Statewide Benefits Office entered into a contract with a vendor and significant problems ensued. After consultation with the Department of Justice, the Benefits Office was able to terminate the contract and award to the second place vendor from the RFP. Treasurer Flowers explained he would like to see an accountability mechanism on each side for checks and balances if using the same company. Ms. Visalli stated that they will follow-up to confirm that the two offices are not working with the same individuals/teams within Segal.

Public Comment

Rich Phillips, DSEA, retiree asked if the consultant award to Segal would have any impact upon Aon Hewitt providing credit monitoring for a three year period to the retirees whose social security information was breached. Ms. Lakeman confirmed the commitment was three years and she is certain that it remains unchanged. Ms. Visalli stated that was a separate agreement with Aon Hewitt and the termination of the contractual relationship for consulting and actuarial services would not impact the security monitoring agreement.

Dave Leiter asked if the contract award to Segal would cost the state more or less and would the arrangement have any impact upon the health fund. Ms. Lakeman explained that costs would depend upon the types of services needed and a specific answer could not be provided. Ms. Visalli added that all things being equal, there was not a significant change in pricing from the current arrangement. Ms. Rentz noted that less than one percent of the annual health fund expenses are paid to the consultant and there would not be an impact on the fund.

Ms. Visalli asked for a motion to accept the recommendation to hire Segal as the consultant actuary for the Group Health Insurance Program. Commissioner Stewart made the motion and Treasurer Flowers seconded the motion. Upon unanimous voice approval the motion carried.

Group Health Program Eligibility and Enrollment Rules and Regulations – Brenda Lakeman (handouts – 2)

The majority of the changes were the result of two pieces of legislation that passed in the first half of the current session. House Bill 81, related to pension and health care changes and Senate Bill 30, in respect to Civil Union implementation and legalization.

Each change was read and explained. Treasurer Flowers questioned why in 3.03, the spouse is sanctioned by the state and the state only pays at 20 percent if the spousal coordination of benefits (SCOB) form is not completed. Ms. Lakeman explained that the form must be completed annually by employees who cover a spouse. Spouses are sanctioned at 20 percent until the form is completed as there is no way to ensure compliance or know if other coverage is available without completion of the form. Once the form is completed and eligibility and/or secondary coverage is determined, the sanction is removed and claim(s) payment is made retroactive. Treasurer Flowers stated the language about removing the sanction was not in the handout. Ms. Lakeman explained the language is in the policy.

Controller General Larson asked for confirmation related to 3.09 that for married or civil union employees, the person whose birthday comes first in the year carries the policy. Ms. Lakeman confirmed this to be correct except that employees married prior to 1993 are considered to be grandfathered and not required to comply with this provision.

Concerning Long Term Disability and Item 5.11, Ms. Visalli asked how benefits apply if you were a state employee, left your job (quit) and went somewhere for six months and returned to a benefit eligible State position. Ms. Lakeman explained the individual would have a three month waiting period before benefits with state share contributions would begin. An authorized leave of absence with unpaid leave allows an employee to return to work and receive benefits with state share without a three month waiting period.

Justice Berger was not altogether familiar with the Civil Union statute. She asked if someone who is in a Civil Union and has a child, are they both "parents" of that child for the purposes of this or not? Ms. Lakeman explained that if the child was a child of a civil union partner prior to the civil union, they are the child of that partner and not the employee or pensioner unless the employee or pensioner has adopted the child. However, if the dependent becomes the child of the couple after the civil union is legal, according to the statute they are the child of both of those parents. Justice Berger stated that a person who has no biological connection to the child and has not adopted the child is still a parent? Ms. Lakeman explained that it is her understanding that if that child is born into the couple after the civil union is legalized; both parties to the civil union are parents to the child.

Justice Berger suggested including disclaimer language in the event that a situation related to coverage of civil union partners and dependents was not addressed. She explained some of the negative aspects of statutory construction and how unexpected circumstances can arise that have not been addressed in the legislation or regulations supporting the legislation. Justice Berger offered to draft language for the Committee to consider for a future version of the Rules.

Commissioner Stewart asked for clarification of 2.02 and did it apply when the parents have the same birthday. Ms. Lakeman stated that was correct. She reread the section and noted that the employees must meet two criteria before the option of mutual choice applies.

Being no further questions Ms. Visalli thanked Ms. Lakeman, Mr. Kerber and all who worked on the revised rules. Ms. Lakeman further thanked Ann Skeans who oversees the eligibility rules, also noting she put a lot of time into this effort.

SEBAC Comment

None.

Public Comment

Dave Leiter, DHSS, state employee, addressed the Insurance Commissioner's interest in raising the 200 percent reserve minimum upward. He wanted to understand if an increase in the minimum reserve would raise the cost to the employees. Commissioner Stewart stated no and Mr. Leiter responded by stating that an increase will result in a cost somewhere. Commissioner Stewart expressed her concerns that the fund's surplus funds could be used for purposes other than those of the health fund. Ms. Visalli explained that she is not aware that the fund balance has ever gone below the minimum reserve amount. Ms. Lakeman explained that prior to the Committee's adoption of the RBC methodology; the reserve was calculated based upon an average of two months of claims data. Ms. Visalli explained that it was important to find the correct balance between the minimum reserve and a surplus that was not too large or small.

Mr. Leiter asked what the rate on it is. Controller Larson explained that in the past the reserve would build up to a higher than necessary level equivalent to five or six months of claims. The SEBC would then approve a moratorium on the cost to the employee and the state. Two years ago, funds were used to offset the increased costs to the employees. Mr. Leiter asked for confirmation that reserve funds remain in the fund. Ms. Visalli confirmed that reserves remain in the fund and explained the research conducted to determine the minimum reserve and it was based on industry standards so the SEBC could avoid debates regarding how to utilize the money. The Committee agreed to the formula to establish the minimum reserve and there has been no discussion about the reserve since that time. If you increase the minimum reserve it provides less flexibility for the Committee to look at the surplus. Controller Larson added that it was actually reduced to two months during the Carper administration. In June of 2009, the 200 percent formula was approved and implemented. Commissioner Stewart said it doesn't mean the employees cost would go up if they moved the minimum up.

Mr. Leiter was concerned with retiree's coverage loss due to not having filled out the Spousal Coordination of Benefits (SCOB) paperwork on time. As people get older it becomes more confusing for the older retirees and it's confusing for the lower paid and less educated employees. What will the state do to help the elderly as they get older, so they can be sure to complete the paperwork? Ms. Visalli recognized the challenge with communicating policies like the SCOB with certain populations. She explained that multiple communications are sent to employees and retirees who do not complete the form and the communications occur before sanctions are applied. Ms. Lakeman added that letters are sent out immediately after the deadline for completion passes. It is not unusual for an employee or retiree to take action only after their spouse incurs a claim that is not paid at 100 percent. When this occurs and the Benefits Office is contacted, an explanation is provided with instructions to complete the form. Additionally, the sanction is retroactively removed and claims are reprocessed to pay.

Mr. Leiter asked if the $25 charge will be a deduction from the pensioner's monthly pension check or a separate payment mailed to the State. Ms. Lakeman stated it will be a premium deduction and handled in the same manner as deductions for active employees and retirees. The charge will be pretax for employees and after tax for pensioners.

Is the Long Term Disability, item 7.06 – "the end of the month their LTD benefits are terminated" is that dependent on if there is a job for them? Ms. Lakeman explained if they are no longer disabled and can return to work, they have the Return to Work Coordinator's services available to try to be placed in a job with the state or in a job outside the state if no state job is available.

Controller General Larson asked if someone is incapable of doing the SCOB form, if in a long term care facility, has dementia, or is the spouse of a retiree who has since deceased, what is the requirement to complete the form and who completes the form? Discussion with explanations of each scenario followed. Ms. Visalli stated that she often receives compliments on how well the Pension Office handles their constituency.

Ms. Visalli called for a motion to approve the changes to the Eligibility and Enrollment Rules as presented. Commissioner Stewart made the motion and Controller General Larson seconded. Upon unanimous voice approval the motion carried.

Other Business

None.

It was noted that copies of the 2012 meeting dates were on the table and in members' packets.
Ms. Lakeman reminded the committee and attendees that there were would not be a meeting in December and the January meeting date was changed from the 9th to the13th.

Ms. Visalli requested a motion to adjourn the meeting. Controller General Larson made the motion. The public session ended at 3:07 p.m.

Respectfully submitted,

Mary K. Thuresson
Administrative Specialist
Statewide Benefits Office, OMB